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REPORT TO THE LEGISLATURE

DEPARTMENT OF HIGHWAYS

Financial-Compliance Audit for the
Two Fiscal Years Ended June 30, 1987

This report contains recommendations in the following
areas:

- ▶ Bond recording
- ▶ State compliance issues
- ▶ Internal control documentation

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office.

Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

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STATE OF MONTANA

Office of the Legislative Auditor

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SCOTT A. SEACAT
LEGISLATIVE AUDITOR

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LEGAL COUNSEL:

JOHN W. NORTHEY

March 1988

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Highways' financial activity for fiscal years 1985-86 and 1986-87. The department's written response to audit recommendations is included in the back of the report.

We thank the director and department staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Scott A. Seacat", written over a horizontal line.

Scott A. Seacat
Legislative Auditor

Office of the Legislative Auditor

DEPARTMENT OF HIGHWAYS

Financial-Compliance Audit for the
Two Fiscal Years Ended June 30, 1987

Members of the audit staff involved in this audit were: Allyn Clark,
Dan Gaughan, Wayne Kedish, Rich McRae, and Gary Trescott.

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APPOINTIVE AND ADMINISTRATIVE OFFICIALS

DEPARTMENT OF HIGHWAYS

STATE HIGHWAY COMMISSION

		<u>Term Expires</u>
Hert Hellebust, Chairman	Havre	1989
Maria Murray	Butte	1989
Paul Foster	Billings	1989
Gerald Archambeault	Glasgow	1991
Roy Duff	Whitefish	1991

ADMINISTRATIVE OFFICIALS

Gary Wicks	Director
John Prebil	Deputy Director
William Salisbury	Administrator Centralized Services Division
Don Harriott	Administrator Engineering Division
Jesse Munro	Administrator Gross Vehicle Weight Division
James Beck	Administrator Legal Division
Donald Gruel	Administrator Maintenance & Equipment Division
Russell McDonald	Administrator Personnel Division
Robert Champion	Administrator Program Development Division

SUMMARY OF AUDIT RECOMMENDATIONS

Page

Recommendation #1:

The department ensure complex and infrequent transactions receive adequate management review.

6

Agency Response: Concur. See page 28.

Recommendation #2:

The department:

- A. Comply with the law and obligate only up to three times a county's previous year's apportionment for secondary roads.

7

Agency Response: Concur. See page 28.

- B. If necessary, seek legislation to allow the department more flexibility in apportioning secondary highway funds.

7

Agency Response: Concur. See page 28.

Recommendation #3:

Legislation be enacted amending section 60-3-303(3), MCA, to provide a method to allow the department to consistently document if bikeway expenditure limits are met.

10

Agency Response: Concur. See page 28.

Recommendation #4:

The department comply with established procedures to monitor appropriation requirements and ensure reversions meet legislative requirements.

10

Agency Response: Concur. See page 28.

Recommendation #5:

The department ensure access privileges are cancelled in a timely manner for terminated employees.

12

Agency Response: Concur. See page 29.

SUMMARY OF RECOMMENDATIONS (continued)

Page

Recommendation #6:

The department implement procedures to ensure:

- A. Field project managers review and approve project estimates. 13

Agency Response: Concur. See page 29.

- B. Equipment operators' supervisors review and approve equipment usage reports. 13

Agency Response: Concur. See page 29.

INTRODUCTION

We performed a financial-compliance audit of the Montana Department of Highways for the two fiscal years ended June 30, 1987. The objectives of the audit were to determine:

1. The department's compliance with applicable federal and state laws and regulations.
2. If the financial schedules present fairly the changes in fund balance and results of operations of the department for the two fiscal years ended June 30, 1987.
3. The effectiveness of administrative and accounting controls used to ensure resource use is consistent with laws and regulations; resources are safeguarded against waste, loss and misuse; and reliable information is maintained and fairly disclosed in the financial records.
4. The implementation status of prior audit recommendations.

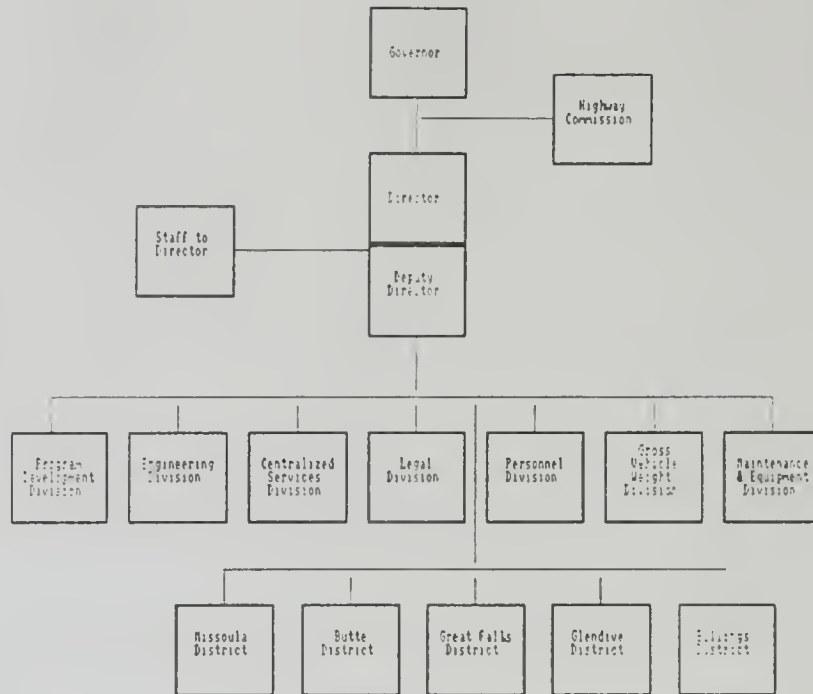
This report contains six recommendations to the department. These recommendations address areas where management, internal control, and compliance with laws and regulations can be improved. Other areas of concern deemed not to have a significant effect on the successful operations of the department programs are not specifically included in the report but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. Each report section discloses the cost, if significant, of implementing the recommendation.

GENERAL

The department is responsible for the planning, layout, construction, improvement, repair, and maintenance of state highways and federal aid system highways. The department's responsibilities also include the collection of fees and enforcement of laws related to the Gross Vehicle Weight regulations.

The department is an executive branch agency and is organized as follows:



The Department of Highways is under the direction of the Highway Commission and the director. The Highway Commission is composed of five members appointed by the governor for four year terms with Senate confirmation. The commission determines construction priorities, selects construction projects, and determines the allocation of financial aid. It also classifies highways as federal aid highways, primary highways, and/or off-system highways in the state maintenance system. The commission may delegate certain functions to the director of the Department of Highways. The director is appointed by the governor and confirmed by the Senate.

The department employed 1,821 full-time equivalent employees (FTE) at June 30, 1986 and 1,758 FTE at June 30, 1987.

Budgeted expenditures and transfers out were \$328,924,738 in fiscal year 1985-86 and \$314,026,687 in fiscal year 1986-87. The expenditures were grouped by program in the appropriation legislation and are summarized by program in the Schedule of Budgeted Expenditures and Transfers Out by Program and Fund in the financial schedules attached to this report, see pages 16 through 26. The budgeted programs and the management divisions they relate to are:

General Operations Program - provides the overall administrative support services essential to the operations of the department through the Director's Office, and the Centralized Services, Program Development, and Personnel Divisions.

Construction Program - is responsible for ensuring that roads and bridges are constructed or reconstructed to appropriate design standards. It supervises highway construction from project award through completion and approval of the project. These services are generally provided through the Engineering Division.

Maintenance Program - is responsible for preserving and repairing all highways and their appurtenances within the right-of-way of interstate, urban, primary, and state-maintained secondary highway systems in Montana. These services are generally provided through the Maintenance and Equipment Division.

Preconstruction Program - carries out the planning stages of highway development, including determining location and design, conducting any necessary public hearings, acquiring needed rights-of-way, and processing highway projects for contract award through the Engineering Division.

Highway Service Revolving Program - provides certain support services (such as data processing, printing, photography, airplane, and material testing) common to all divisions within the department. These services are billed to the user divisions based on the amount of use.

State Motor Pool Program - operates and maintains a fleet of rental vehicles available to all state officials and employees in the Helena area to facilitate the conduct of official business. The service operates under the Maintenance and Equipment Division. Cost of services is recovered through user fees.

Equipment Program - is responsible for the purchase and maintenance of a fleet of equipment and vehicles for use within the Department of Highways. The primary goal is to provide replacement equipment and maintain and repair existing equipment in a cost effective manner. The Maintenance and Equipment Division administers this program. Again, costs are recovered through user fees.

Capital Outlay Program - includes activity for the sinking fund for retirement of the department's Headquarters Building bonds and is administered by the Centralized Services Division. This program is also used to record transfers to the Reconstruction Trust Fund and Highway Revenue Bond Debt Service Fund.

Stores Inventory Program - purchases and stores materials (such as sand, road oil, and gasoline) needed by other programs within the department. Centralized Services Division administers this program.

Gross Vehicle Weight Program - provides enforcement of the statutes and regulations relating to vehicle weights on the state's highways (Title 61, MCA) and collects gross vehicle weight fees. This program is combined with the General Operations program on the financial schedules presented on pages 16 through 26 and is administered by the Gross Vehicle Weight Division.

The department had several significant legislative events occur during the two year audit period ending June 30, 1987.

- Gasoline and Diesel Tax per gallon increases indicated in the table below resulted in increased revenue to the department.

<u>Type</u>	<u>Year</u>	<u>From</u>	<u>To</u>	<u>Effective Date</u>
Gasoline	1986	15 cents	17 cents	08-01-86 (fiscal year 1986-87)
Gasoline	1987	17 cents	20 cents	07-01-87 (fiscal year 1987-88)
Diesel	1987	17 cents	20 cents	07-01-87 (fiscal year 1987-88)

- Bond issue of \$150,000,000 was used to defease \$107,675,000 in bonds and bond anticipation notes previously issued and generate additional operating capital.
- Coal severance tax money was added as a revenue source to the Highway Reconstruction Trust Account in fiscal year 1985-86. This resulted in a \$1,684,344 and \$5,940,015 increase in fiscal years 1985-86 and 1986-87 respectively
- Mineral royalty money was removed as a revenue source for the department effective July 1, 1986 (fiscal year 1986-87). This amounted to \$7,577,783 in fiscal year 1985-86.
- Interest Earnings on money held in the department's special revenue fund was removed as a revenue source in fiscal year 1986-87. This was \$3,466,058 in fiscal year 1985-86.
- The department received \$17.5 million in fiscal year 1985-86 and \$11.1 million in fiscal year 1986-87 in reimbursement of previously recorded state expenditures in the Advanced Construction Interstate (ACI) program. See footnote 7 on page 25.
- Highway patrol costs were paid 100 percent out of department resources, effective July 1, 1986. Previously only personal services costs were paid with department resources. This resulted in decreased resources available to the department of \$2,294,235 in fiscal year 1986-87.

ACCOUNTING ISSUES

Bond Recording

During fiscal year 1986-87 the department sold Highway Revenue Bonds with a face value of \$150,000,000. After a discount on the sale, the department realized \$149,696,875 of bond proceeds. A portion of the bond proceeds was used to defease the department's outstanding long-term debt. A defeasance involves contracting with a trustee to pay the outstanding debt as it comes due. The contract involves paying the trustee an amount equal to the outstanding principal and interest plus a negotiated fee. Highway Revenue Bond transactions are governed specifically by section 17-5-911, MCA, and generally by the Long-Term Debt Accounting section in the Montana Operations Manual (MOM). This type of transaction is both complex and infrequent. Complex and infrequent transactions increase the potential for misstatements that are not detected by controls over more routine transactions and thus require more management attention.

We noted several instances where revenue and/or expenditures related to the bond sale and defeasance, were not properly recorded. The instances are:

- Bond proceeds and related issue costs from the sale were split between the Special Revenue and Debt Service funds when, by law, both proceeds and issue costs should have been recorded entirely in the Special Revenue Fund.
- Bond expenditures were double recorded in the Debt Service Fund.
- A loss on the defeasance was misclassified as interest expense in the Debt Service Fund.

The cumulative effect of the issues we noted are shown in the table:

Table of Cumulative Over(Under)Statement
by Fund and Classification

	<u>Direct Entries to Fund Balance</u>	<u>Bond Proceeds</u>	<u>Interest Expense</u>	<u>Loss on Sale</u>	<u>Agent Fee Expense</u>
Special Revenue Fund		\$(71,320,382)			\$(1,687,500)
Debt Service Fund	\$(8,718,924)	71,320,382	\$9,958,866*	\$(1,239,942)	1,687,500

*Of the \$9,958,866 overstatement, \$8,718,924 resulted from double recording of expenditures.

The misstatements noted above did not result in any violation of the terms of the bond agreement we tested. Also we did not find any misstatement of either cash or ending fund balance resulting from the above misstatements.

Agency personnel indicated the issues addressed above were the result of an oversight for the double recording and lack of awareness of recording requirements in the other two instances. Our review indicated the lack of awareness was related to the complexity and infrequency of the transaction.

RECOMMENDATION # 1

WE RECOMMEND THE DEPARTMENT ENSURE COMPLEX AND INFREQUENT TRANSACTIONS RECEIVE ADEQUATE MANAGEMENT REVIEW.

COMPLIANCE ISSUES

As part of our audit we examined compliance with applicable state and federal laws and regulations. We noted three instances of noncompliance with state law in the items we tested. We noted no instances of noncompliance with federal laws and regulations in the items we tested.

Allocations to Counties

We noted two instances in fiscal year 1985-86 and two instances in fiscal year 1986-87 where the obligation of state construction funds for federal aid secondary highways exceeded the limit set by state law.

State law requires, "Each fiscal year the department shall apportion available state construction funds for the federal-aid secondary highway system among the financial districts." The law further states, "Funds apportioned to each district shall further be apportioned to each county in the district ..." and "To the extent necessary to permit orderly programming and construction projects, obligations in any county may exceed the amount apportioned to that county to the extent of three times the amount of the last apportionment to the county."

In fiscal year 1985-86 the department exceeded the limit for Mineral County by \$20,869 and Toole County by \$5,297. The limit was exceeded for Daniels County by \$26,898 and Mineral County by \$6,012 in fiscal year 1986-87.

Department personnel indicated the Mineral County overobligation was necessary to take advantage of cost savings that resulted from performing secondary road work in conjunction with interstate work that was planned. They also indicated that overobligations in Toole and Daniels Counties were the result of additional federal funds becoming available. The federal funds could only be used for projects that were planned and ready to bid at the time the funds were made available.

RECOMMENDATION # 2

WE RECOMMEND THE DEPARTMENT:

- A. COMPLY WITH THE LAW AND OBLIGATE ONLY UP TO THREE TIMES A COUNTY'S PREVIOUS YEAR'S APPORTIONMENT FOR SECONDARY ROADS.
- B. IF NECESSARY, SEEK LEGISLATION TO ALLOW THE DEPARTMENT MORE FLEXIBILITY IN APPORTIONING SECONDARY HIGHWAY FUNDS.

Bikeways

During our examination we noted the department could not document compliance with section 60-3-303(3), MCA which requires construction of footpaths and bikeways. The statute requires:

"The amount expended by the state highway commission... shall never in any one fiscal year be less than 3/4 of 1% of the amount appropriated to the department of highways from the state special revenue fund for the construction program, maintenance program and preconstruction program."

In order to document compliance the department would have to accumulate the expenditures for footpaths and bicycle trails in each project by fiscal year. The current accounting system does not allow for recording expenditures in this level of detail by fiscal year.

Department personnel stated in a written response to our inquiries:

"We recognized at the outset (1975) there would be extreme difficulty in tracking actual expenditures, accurately and timely, without adding a considerable volume of new accounts, accounting procedures, bid items and quite possibly FTEs."

As an alternative the department developed its own funding formula for ensuring footpaths and bicycle trails (Bikeways) are constructed. A method to document compliance with their formula was also developed.

The statutory formula and the department's formula consist of:

Statutory Formula

Actual (Bikeways) expenditures <u>in a fiscal year</u>	= 3/4 of 1%
Construction, maintenance, and preconstruction program appropriation in the state Special Revenue Fund in the same fiscal year as the expenditures.	

Department Formula

Engineer's estimate of (Bikeways)
state share cost in projects
let to contract in a fiscal year = 3/4 of 1%
Total engineer's estimate of
state share cost in projects
let to contract in the same
fiscal year as above.

The department's formula does not document technical compliance with the statute because it is based on estimates rather than actual expenditures.

As we researched this issue we noted that a recommendation for the department to develop accounting procedures to comply with the statute would not allow the department an opportunity to comply. This is because the original statute did not contemplate the normal fluctuations in highway construction cycles. A formula based on one fiscal year's expenditures leaves the possibility that, for reasons beyond the department's control, bikeways expenditures may be below the limits set by the statute. Situations that could result in this possibility are:

- Weather drastically shortens the construction season.
- A large bikeways project is completed in one year rather than three as planned.
- A large bikeways project takes three years to complete rather than one as planned.

The same flaw exists in the department's formula as evidenced by the fact that under the department's formula, the department calculated that 1.12 percent of the state share of contracts let were for bikeways, in fiscal year 1985-86 but only .07 percent in fiscal year 1986-87. Based on our research we believe it is not possible for the department to document consistent compliance with the statute.

A suggested remedy would be to modify the law to allow the use of a moving average over of a number of years to calculate the expenditures for bikeways constructed. A moving average could be applied whether the legislature chose to base the formula on actual expenditures or contract estimate amounts.

RECOMMENDATION # 3

WE RECOMMEND LEGISLATION BE ENACTED AMENDING SECTION 60-3-303(3), MCA, TO PROVIDE A METHOD TO ALLOW THE DEPARTMENT TO CONSISTENTLY DOCUMENT IF BIKEWAY EXPENDITURE LIMITS ARE MET.

Appropriation Reversion

House Bill 447, Laws of 1985, contained language that the Department of Highways, Equipment Division, was appropriated money for 2,200,000 gallons of gasoline and 600,000 gallons of diesel fuel in fiscal year 1984-85 at \$1.30 per gallon. The House Bill went on to say in the event the price decreased, the division should revert any excess appropriation authority. We determined the amount that should have been reverted to be \$1,113,384. The amount that was reverted was \$1,041,714, leaving an underreverted balance of \$71,670.

Department personnel indicated that the underreversion occurred when the department's expenditure management policies were not properly followed.

RECOMMENDATION # 4

WE RECOMMEND THE DEPARTMENT COMPLY WITH ESTABLISHED PROCEDURES TO MONITOR APPROPRIATION REQUIREMENTS AND ENSURE REVERSIONS MEET LEGISLATIVE REQUIREMENTS.

DATA PROCESSING

The Department of Highways collects and processes a large amount of data using computers. The data files, as well as the application programs themselves, must be protected from accidental or intentional destruction or alteration. This is necessary to help ensure the safeguarding of assets, as well as the accuracy and reliability of management information and financial records.

In our last audit we made four recommendations related to data processing. The department has implemented procedures to satisfy all the data processing recommendations.

In our current examination, we identified an area where controls over access to the computer system, data files, and computer programs could be improved. We estimate any additional cost to the department for implementation of the related recommendation will be negligible.

Cancellation of Access Privileges

The department's computer operations section is responsible for the authorization and cancellation of computer system access privileges for all department employees using the state's security software (ACF2). However, procedures existing to ensure access privileges are cancelled upon employee termination are not being properly applied. We noted four employees with access privileges whose employment terminated prior to the end of our field work. Our testing showed access was made using two of the terminated employees' user identification numbers (user IDs) after they terminated. The other two terminated employees' user IDs had not been cancelled three and five months after the employees' terminations.

Department personnel indicated the access between the termination and cancellation of access privileges was probably access to move the files from the terminated employee's user ID to the employee that will now have access to these files. This movement of files can be accomplished by the security officer without using the terminated employee's access code. Department personnel also indicated that access had not been cancelled for the other two employees because the employees were former technical services bureau employees and the bureau left the access open to perform housekeeping functions on the files maintained by those employees. The access for those employees can be cancelled and technical services bureau would still have access through the security officer.

In our previous audit we recommended the department ensure access privileges are cancelled for terminated employees. The department developed procedures to accomplish this, however, the procedures were not followed.

Allowing terminated employees to retain access privileges to the department's computer system provides the opportunity for the destruction or alteration of system information by former employees. Access privileges should be cancelled immediately upon termination.

RECOMMENDATION # 5

WE RECOMMEND THE DEPARTMENT ENSURE ACCESS PRIVILEGES ARE CANCELLED IN A TIMELY MANNER FOR TERMINATED EMPLOYEES.

INTERNAL CONTROLS

The department receives Federal Highways Planning and Construction Grant (CFDA #20.205) moneys to aid in the construction of federal aid highways. During our examination we noted two instances where documentation of the existence of internal controls related to this grant were lacking.

Documentation of Controls

Major highway construction projects are supervised by a field project manager. The field project manager is responsible for preparing a project estimate, which is used to generate payments to contractors for the work completed. We identified the field project manager's review and approval of the completed project estimate as one of the key controls in the contractor claims section of the expenditure cycle. Our testing disclosed that the field project manager no longer signs the project estimate as evidence of the control. As a result we were not able to verify this control exists. Since the field project managers often telephone the project estimate information to the district office, where the information is transmitted via computer to Helena headquarters, the possibility of errors and/or overpayments that would not be detected in a timely manner is increased. Department personnel indicated the review and approval was dropped when the information began to be transmitted electronically due to the difficulty in obtaining a manual signature. The review and approval provides an important management control. Federal Highway Administration program review personnel also identified this as a control weakness during a 1987 review of two of the department's financial districts.

We noted another review and approval control that could not be verified due to the lack of a signature indicating the review had been done. The department has an equipment management system that is used to develop management information and bill projects for equipment use. The input for this system is an equipment usage report, prepared by the operator of the

equipment, detailing what projects should be charged for the equipment's use. These equipment usage reports are supposed to be reviewed by the operator's supervisor prior to processing. However, the department could not provide us with evidence the review had been performed. As a result, the potential for equipment usage to be improperly charged and not detected in a timely manner is increased. Department personnel indicated the lack of approval verifying the review was an oversight.

RECOMMENDATION # 6

WE RECOMMEND THE DEPARTMENT IMPLEMENT PROCEDURES TO ENSURE:

- A. FIELD PROJECT MANAGERS REVIEW AND APPROVE PROJECT ESTIMATES.
- B. EQUIPMENT OPERATORS' SUPERVISORS REVIEW AND APPROVE EQUIPMENT USAGE REPORTS.

PRIOR AUDIT RECOMMENDATIONS

The previous audit for fiscal years 1983-84 and 1984-85 contained seven recommendations that are still applicable. The department has implemented all of these recommendations.

AUDITOR'S OPINION LETTER
AND AGENCY FINANCIAL SCHEDULES

SUMMARY OF AUDIT OPINION

The auditor's opinion issued in this report is intended to convey to the reader of the financial schedules the degree of reliance that can be placed on the amounts presented. We issued a qualified opinion on the Schedule of Changes in Fund Balance for the two fiscal years ending June 30, 1987, the Schedule of Budgeted Revenue and Transfers In for the fiscal year ending June 30, 1987, and the Schedule of Budgeted Expenditures and Transfers Out for the fiscal year ending June 30, 1987. These schedules are misstated due to problems in the accounting for bond proceeds and Debt Service Fund expenditures as noted on page 5 of the report. The reader should use caution when using financial information from the Statewide Budgeting and Accounting System (SBAS) included in these schedules.

We issued an unqualified opinion on all other financial schedules prepared from Statewide Budgeting and Accounting System (SBAS), as noted on page 15 of the report. An unqualified opinion means that the schedules are fairly stated in all material respects and that the user of this SBAS information can rely on the information presented.

STATE OF MONTANA

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SCOTT A. SEACAT
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JIM PELLEGRINI
PERFORMANCE AUDITS

LEGAL COUNSEL:

JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the financial schedules of the Montana Department of Highways for each of the two fiscal years ended June 30, 1986 and 1987 as shown on pages 16 through 26. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 1 to the financial schedules, the department's financial schedules are prepared in accordance with state accounting policy. Accordingly, the accompanying financial schedules are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

During fiscal year 1986-87 the department recorded \$71,320,382 in bond proceeds in the debt service fund. The department also recorded \$1,687,500 of related bond issue expense in the debt service fund. The bond proceeds and related issuance costs are required by state law and policy to be recorded in the special revenue fund. As a result revenue is understated by \$71,320,382, transfers out are understated by \$69,332,882 and expenditures are understated by \$1,687,500 in the special revenue fund in fiscal year 1986-87. In the debt service fund, fiscal year 1986-87 revenues and expenditures are overstated by \$71,320,382 and \$1,687,500 respectively and transfers in are understated by \$69,332,882.

The department double recorded expenditures of \$8,718,924 in the debt service fund in fiscal year 1986-87. This resulted in an overstatement of expenditures and direct entries to fund balance of \$8,718,924 in the debt service fund.

In our opinion, except for the effect of the matters discussed in paragraphs three and four, the schedules listed below present fairly the results of operations and the changes in fund balance of the Department of Highways for the two fiscal years ended June 30, 1987 in conformity with the basis of accounting described in Note 1 applied on a consistent basis.

Schedule of Changes in Fund Balance for the Two Fiscal
Years Ended June 30, 1987

Schedule of Budgeted Revenue and Transfers In-
Estimated and Actual for the Fiscal Year Ended June 30,
1987

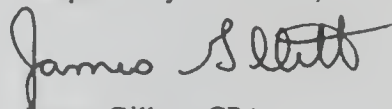
Schedule of Budgeted Program Expenditures and Transfers
Out by Object and Fund for the Fiscal Year Ended
June 30, 1987

In our opinion, the financial schedules listed below present fairly the results of operations of the Department of Highways for each of the two fiscal years ended June 30, 1986, in conformity with the basis of accounting described in Note 1 applied on a consistent basis.

Schedule of Budgeted Revenue and Transfers In-
Estimated and Actual for the Fiscal Year Ended June 30,
1986

Schedule of Budgeted Program Expenditures and Transfers
Out by Object and Fund for the Fiscal Year Ended June
30, 1986

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "James Gillett", written in a cursive style.

James Gillett, CPA
Deputy Legislative Auditor

January 6, 1988

DEPARTMENT OF HIGHWAYS
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1987

	Special Revenue <u>Funds</u>	Debt Service <u>Funds</u>	Internal Service <u>Funds</u>	Expendable Trust Funds
FUND BALANCE: July 1, 1985	\$ <u>130,371,603</u>	\$ <u>14,643,269</u>	\$ <u>26,680,416</u>	\$ <u>876,752</u>
ADDITIONS				
<u>Fiscal Year Ended 1985-86</u>				
Budgeted Revenue & Transfers In	194,904,456		16,942,270	
Cash Transfers In	71,051,474			
Nonbudgeted Revenue & Transfers In		97,799,359	128,408	27,734
Nonbudgeted Expenditures & Transfers Out			2,011,141	
Prior Year Revenue Adjustments	239,668		8,451	15
Prior Year Expenditure Adjustments	13,907,835			
Nonbudgeted Prior Year Expenditure Adjustment			882,654	
Direct Entries To Fund Balance		17,829,856		
<u>Fiscal Year Ended 1986-87</u>				
Budgeted Revenue & Transfers In	258,719,387		14,535,227	
Cash Transfers In	79,549,064			
Nonbudgeted Revenue & Transfers In		87,357,640		1,391
Nonbudgeted Expenditures & Transfers Out			347,682	
Prior Year Revenue Adjustments	567,033			
Prior Year Expenditure Adjustments	10,662,350		15,614	
Nonbudgeted Prior Year Expenditure Adjustment			1,567,834	
Direct Entries To Fund Balance	<u>6,700,023</u>	<u>2,412,179</u>	<u>7,475</u>	
Total Additions	<u>636,301,290</u>	<u>205,399,034</u>	<u>36,446,756</u>	<u>29,140</u>
REDUCTIONS				
<u>Fiscal Year Ended 1985-86</u>				
Budgeted Expenditures & Transfers Out	312,460,336		16,464,402	
Nonbudgeted Expenditures & Transfers Out		96,383,543		517,771
Prior Year Expenditure Adjustments			12,866	
Direct Entries to Fund Balance	10,484,297			
<u>Fiscal Year Ended 1986-87</u>				
Budgeted Expenditures & Transfers Out	298,694,698		15,331,989	
Prior Year Expenditures	1,198			
Nonbudgeted Expenditures & Transfers Out		116,234,294		147,110
Prior Year Revenue Adjustments			74,069	
Prior Year Revenue	<u>11,957</u>			
Total Reductions	<u>621,652,486</u>	<u>212,617,837</u>	<u>31,883,326</u>	<u>664,881</u>
Fund Balance: June 30, 1987	\$ <u>145,020,407</u>	\$ <u>7,424,466</u>	\$ <u>31,243,846</u>	\$ <u>241,011</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 21 through 26.

SPECIAL REVENUE FUND

Estimated Revenue
Actual Revenue
Collections Over
(Under) Estimate

INTERNAL SERVICE FUNDS

Estimated Revenue
Actual Revenue
Collections Over
(Under) Estimate

¹ Includes Bond Proceeds

This schedule is prepared
provided in the notes

DEPARTMENT OF HIGHWAYS
 SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATED & ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 1987

	Licenses and Permits	Taxes	Charges For Services	Investment Earnings	Sale of Documents & Merchandise	Rentals, Leases & Royalties	Miscellaneous	Grants, Contracts, Donations	Other Sources	Federal	Total
SPECIAL REVENUE FUND											
Estimated Revenue	\$15,182,942	\$ 8,767,650	\$13,806,471	\$3,419,078	\$ 60,600	\$110,000	\$155,000	\$ 724,995	\$122,647,000 ¹	\$115,772,128	\$280,645,864
Actual Revenue	<u>14,912,864</u>	<u>7,350,942</u>	<u>10,796,628</u>	<u>3,768,475</u>	<u>60,532</u>	<u>102,789</u>	<u>173,334</u>	<u>250,276</u>	<u>103,908,493</u>	<u>117,395,054</u>	<u>258,719,387</u>
Collections Over (Under) Estimate	\$ <u>(270,078)</u>	\$ <u>(1,416,708)</u>	\$ <u>(3,009,843)</u>	\$ <u>349,397</u>	\$ <u>(68)</u>	\$ <u>(7,211)</u>	\$ <u>18,334</u>	\$ <u>(474,719)</u>	\$ <u>(18,738,507)</u>	\$ <u>1,622,926</u>	\$ <u>(21,926,477)</u>
INTERNAL SERVICE FUNDS											
Estimated Revenue			\$12,153,232		\$210,000		\$ 7,500		\$ 2,590,751		\$ 14,961,483
Actual Revenue			<u>12,082,649</u>		<u>198,782</u>		<u>5,946</u>		<u>2,247,850</u>		<u>14,535,227</u>
Collections Over (Under) Estimate			\$ <u>(70,583)</u>		\$ <u>(11,218)</u>		\$ <u>(1,554)</u>		\$ <u>(342,901)</u>		\$ <u>(426,256)</u>

¹ Includes Bond Proceeds of \$78,378,493 and Transfers In of \$25,530,000 in the Special Revenue Fund.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 21 through 26.

SPECIAL REVENUE FUND

Estimated Revenue

Actual Revenue

Collections Over

(Under) Estimate

INTERNAL SERVICE FUND

Estimated Revenue

Actual Revenue

Collections Over

(Under) Estimate

¹ Represents Transf

This schedule is pre

DEPARTMENT OF HIGHWAYS
SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATED & ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1986

	<u>Licenses and Permits</u>	<u>Taxes</u>	<u>Service Fees</u>	<u>Investment Earnings</u>	<u>Sale of Documents & Merchandise</u>	<u>Rent,Leases & Royalties</u>	<u>Miscellaneous</u>	<u>Grants,Gifts, & Donations</u>	<u>Other Sources</u>	<u>Federal Assistance</u>	<u>Total</u>
SPECIAL REVENUE FUND											
Estimated Revenue	\$ 16,062,234	\$ 7,726,619	\$13,745,437	\$ 9,277,795	\$ 37,351	\$ 7,702,415	\$ 346,825	\$ 94,995	\$ 32,050,000 ¹	\$ 127,562,709	\$ 214,606,380
Actual Revenue	<u>14,750,038</u>	<u>7,833,612</u>	<u>13,485,880</u>	<u>8,525,961</u>	<u>39,004</u>	<u>7,696,236</u>	<u>164,105</u>	<u>0</u>	<u>13,336,604</u>	<u>129,073,016</u>	<u>194,904,456</u>
Collections Over (Under) Estimate	<u>\$ (1,312,196)</u>	<u>\$ 106,993</u>	<u>\$ (259,557)</u>	<u>\$ (751,834)</u>	<u>\$ 1,653</u>	<u>\$ (6,179)</u>	<u>\$(182,720)</u>	<u>\$(94,995)</u>	<u>\$(18,713,396)</u>	<u>\$ 1,510,307</u>	<u>\$(19,701,924)</u>
INTERNAL SERVICE FUNDS											
Estimated Revenue			\$13,611,353		\$247,500		\$ 4,301		\$ 2,920,903		\$ 16,784,057
Actual Revenue			<u>13,803,845</u>		<u>220,719</u>		<u>7,524</u>		<u>2,910,182</u>		<u>16,942,270</u>
Collections Over (Under) Estimate			<u>\$ 192,492</u>		<u>\$(26,781)</u>		<u>\$ 3,223</u>		<u>\$ (10,721)</u>		<u>\$ (158,213)</u>

¹ Represents Transfers In of \$13,336,604 in the Special Revenue Fund.

PERSONAL SERVICES

Salaries
Other Compensation
Employee Benefits
Total

OPERATING EXPENSES

Contracted Services
Supplies & Materials
Communications
Travel
Rent
Utilities
Repair & Maintenance
Other Expenses
Total

EQUIPMENT AND INTANGIBLE ASSETS

Equipment
Intangible Assets
Total

CAPITAL OUTLAY

Land & Interest in
Total

GRANTS

From State Sources
Total

TRANSFERS

Accounting Entity Transfers
Total

DEBT SERVICE

Bonds
Total

TOTAL PROGRAM EXPENDITURES

SPECIAL REVENUE FUND

Budgeted
Actual
Unspent Budget Authority

INTERNAL SERVICE FUND

Budgeted
Actual
Unspent Budget Authority

¹ Includes Transfers

This schedule is prepared
through 26.

DEPARTMENT OF HIGHWAYS
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1987

	General <u>Operations</u>	<u>Construction</u>	<u>Maintenance</u>	<u>Preconstruction</u>	Highway Service <u>Revolving</u>	State Motor <u>Pool</u>	<u>Equipment</u>	Capital <u>Outlay</u>	Stores <u>Inventory</u>	<u>Total</u>
PERSONAL SERVICES										
Salaries	\$ 4,910,795	\$ 13,514,622	\$14,412,298	\$ 5,410,278	\$1,560,738	\$111,693	\$ 2,658,839			\$ 42,579,263
Other Compensation	6,383	2,896	1,449	492	200		245			11,665
Employee Benefits	<u>1,075,172</u>	<u>2,887,697</u>	<u>3,742,586</u>	<u>1,088,650</u>	<u>323,704</u>	<u>30,811</u>	<u>677,723</u>			<u>9,826,343</u>
Total	<u>5,992,350</u>	<u>16,405,215</u>	<u>18,156,333</u>	<u>6,499,420</u>	<u>1,884,642</u>	<u>142,504</u>	<u>3,336,807</u>			<u>52,417,271</u>
OPERATING EXPENSES										
Contracted Services	1,798,244	151,272,870	1,502,274	3,505,626	622,919	36,591	259,633		\$ 110,806	159,108,963
Supplies & Materials	142,973	315,115	575,015	46,564	223,899	108,323	1,801,426		2,006,372	5,219,687
Communications	260,357	170,811	181,428	71,541	21,353	941	35,960		4,579	746,970
Travel	266,782	1,039,693	76,468	217,996	24,454		24,063			1,649,456
Rent	222,870	1,185,072	6,957,696	3,764	3,825	2,592	2,979		821,479	9,200,277
Utilities	54,269	75,151	1,207,856	(4)	1,806	4,682	86,698		2,214	1,432,672
Repair & Maintenance	125,443	116,253	9,404,562	4,509	61,732	32,066	1,444,885		7,518,572	18,708,022
Other Expenses	<u>105,960</u>	<u>12,225</u>	<u>35,882</u>	<u>8,372</u>	<u>79,921</u>	<u>90</u>	<u>24,858</u>			<u>267,308</u>
Total	<u>2,976,898</u>	<u>154,187,190</u>	<u>19,941,181</u>	<u>3,858,368</u>	<u>1,039,909</u>	<u>185,285</u>	<u>3,680,502</u>		<u>10,464,022</u>	<u>196,333,355</u>
EQUIPMENT AND INTANGIBLE ASSETS										
Equipment	626,575	180,823	117,738	94,910	28,963	342,308	4,689,089			6,080,406
Intangible Assets		980			1,980					2,960
Total	<u>626,575</u>	<u>181,803</u>	<u>117,738</u>	<u>94,910</u>	<u>30,943</u>	<u>342,308</u>	<u>4,689,089</u>			<u>6,083,366</u>
CAPITAL OUTLAY										
Land & Interest In Land			43,915	1,829,241						1,873,156
Total			<u>43,915</u>	<u>1,829,241</u>						<u>1,873,156</u>
GRANTS										
From State Sources	<u>14,240,105</u>									<u>14,240,105</u>
Total	<u>14,240,105</u>									<u>14,240,105</u>
TRANSFERS										
Accounting Entity Transfers							2,247,850	\$40,823,767 ¹		43,071,617
Total							<u>2,247,850</u>	<u>40,823,767</u>		<u>43,071,617</u>
DEBT SERVICE										
Bonds	<u>7,817</u>									<u>7,817</u>
Total	<u>7,817</u>									<u>7,817</u>
TOTAL PROGRAM EXPENDITURES	<u>\$23,843,745</u>	<u>\$170,774,208</u>	<u>\$38,259,167</u>	<u>\$12,281,939</u>	<u>\$2,955,494</u>	<u>\$670,097</u>	<u>\$13,954,248</u>	<u>\$40,823,767</u>	<u>\$10,464,022</u>	<u>\$314,026,687</u>
SPECIAL REVENUE FUND										
Budgeted	\$24,495,626	\$187,220,514	\$39,735,720	\$13,309,506			\$ 2,247,850	\$46,163,599	\$12,147,896	\$325,320,711
Actual	<u>23,843,745</u>	<u>170,774,208</u>	<u>38,259,167</u>	<u>12,281,939</u>			<u>2,247,850</u>	<u>40,823,767</u>	<u>10,464,022</u>	<u>298,694,698</u>
Unspent Budget Authority	\$ <u>651,881</u>	\$ <u>16,446,306</u>	\$ <u>1,476,553</u>	\$ <u>1,027,567</u>			\$ <u>0</u>	\$ <u>5,339,832</u>	\$ <u>1,683,874</u>	\$ <u>26,626,013</u>
INTERNAL SERVICE FUNDS										
Budgeted					\$3,242,861	\$686,286	\$12,212,702			\$ 16,141,849
Actual					<u>2,955,494</u>	<u>670,097</u>	<u>11,706,398</u>			<u>15,331,989</u>
Unspent Budget Authority					\$ <u>287,367</u>	\$ <u>16,189</u>	\$ <u>506,304</u>			\$ <u>809,860</u>

¹ Includes Transfers for Highway Reconstruction Trust, Advanced Construction Interstate projects and Highway Headquarters Building Bond payments.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 21 through 26.

PERSONAL SERV

Salaries

Other Compensation

Employee Benefits

Total

OPERATING EXPENSES

Contracted Services

Supplies & Materials

Communications

Travel

Rent

Utilities

Repair & Maintenance

Other Expenses

Total

EQUIPMENT AND

Equipment

Intangible Assets

Total

CAPITAL OUTLAY

Land & Interests

Other Improvements

Total

GRANTS

From State & Local

Total

TRANSFERS

Accounting & Finance

Total

DEBT SERVICE

Bonds

Total

TOTAL PROGRAM

SPECIAL REVENUE

Budgeted

Actual

Unspent Budget

INTERNAL SERVICES

Budgeted

Actual

Unspent Budget

This schedule is
through 26.

DEPARTMENT OF HIGHWAYS
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES AND TRANSFERS OUT BY OBJECT AND FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1986

	General Operations	Construction	Maintenance	Preconstruction	Highway Service Revolving	State Motor Pool	Equipment	Capital Outlay	Stores Inventory	Total
PERSONAL SERVICES										
Salaries	\$ 4,837,148	\$ 13,846,914	\$15,027,178	\$ 5,427,960	\$1,539,093	\$114,777	\$ 2,690,818			\$ 43,483,888
Other Compensation	7,232	3,806	2,105	1,449			49			14,641
Employee Benefits	<u>1,017,269</u>	<u>2,856,983</u>	<u>3,535,482</u>	<u>1,061,793</u>	<u>311,513</u>	<u>28,099</u>	<u>637,136</u>			<u>9,448,275</u>
Total	<u>5,861,649</u>	<u>16,707,703</u>	<u>18,564,765</u>	<u>6,491,202</u>	<u>1,850,606</u>	<u>142,876</u>	<u>3,328,003</u>			<u>52,946,804</u>
OPERATING EXPENSES										
Contracted Services	1,847,336	171,645,533	1,028,206	1,322,628	637,700	28,716	199,614		\$ 67,825	176,777,558
Supplies & Materials	188,871	338,797	620,293	72,376	203,459	150,730	2,702,528		2,799,296	7,076,350
Communications	261,317	157,128	199,908	95,375	24,878	1,042	43,986		5,639	789,273
Travel	313,993	1,285,532	107,286	236,472	21,554		28,158		651	1,993,646
Rent	232,326	1,142,071	8,307,562	9,998	6,056	2,636	1,277		737,298	10,439,224
Utilities	60,221	100,113	1,276,568	258	1,954	5,884	137,699		346	1,583,043
Repair & Maintenance	222,104	280,445	10,960,444	10,714	62,622	35,788	1,559,878		8,831,500	21,963,495
Other Expenses	<u>102,399</u>	<u>19,584</u>	<u>41,737</u>	<u>36,065</u>	<u>67,426</u>	<u>209</u>	<u>23,320</u>			<u>290,740</u>
Total	<u>3,228,567</u>	<u>174,969,203</u>	<u>22,542,004</u>	<u>1,783,886</u>	<u>1,025,649</u>	<u>225,005</u>	<u>4,696,460</u>		<u>12,442,555</u>	<u>220,913,329</u>
EQUIPMENT AND INTANGIBLE ASSETS										
Equipment	588,224	249,638	337,195	1,129,527	57,063	489,710	4,649,030			7,500,387
Intangible Assets				<u>2,999</u>						<u>2,999</u>
Total	<u>588,224</u>	<u>249,638</u>	<u>337,195</u>	<u>1,132,526</u>	<u>57,063</u>	<u>489,710</u>	<u>4,649,030</u>			<u>7,503,386</u>
CAPITAL OUTLAY										
Land & Interest In Land	2,000		149,184	2,080,971						2,232,155
Other Improvements			<u>9,300</u>							<u>9,300</u>
Total	<u>2,000</u>		<u>158,484</u>	<u>2,080,971</u>						<u>2,241,455</u>
GRANTS										
From State Sources	<u>14,282,778</u>									<u>14,282,778</u>
Total	<u>14,282,778</u>									<u>14,282,778</u>
TRANSFERS										
Accounting Entity Transfers							<u>2,910,182</u>	<u>\$28,109,889</u>		<u>31,020,071</u>
Total							<u>2,910,182</u>	<u>28,109,889</u>		<u>31,020,071</u>
DEBT SERVICE										
Bonds	<u>16,915</u>									<u>16,915</u>
Total	<u>16,915</u>									<u>16,915</u>
TOTAL PROGRAM EXPENDITURES	<u>\$23,980,133</u>	<u>\$191,926,544</u>	<u>\$41,602,448</u>	<u>\$11,488,585</u>	<u>\$2,933,318</u>	<u>\$857,591</u>	<u>\$15,583,675</u>	<u>\$28,109,889</u>	<u>\$12,442,555</u>	<u>\$328,924,738</u>
SPECIAL REVENUE FUND										
Budgeted	\$24,607,434	\$209,774,532	\$42,339,821	\$14,458,563			\$ 2,920,903	\$46,823,336	\$12,726,362	\$353,650,951
Actual	<u>23,980,133</u>	<u>191,926,544</u>	<u>41,602,448</u>	<u>11,488,585</u>			<u>2,910,182</u>	<u>28,109,889</u>	<u>12,442,555</u>	<u>312,460,336</u>
Unspent Budget Authority	<u>\$ 627,301</u>	<u>\$ 17,847,988</u>	<u>\$ 737,373</u>	<u>\$ 2,969,978</u>			<u>\$ 10,721</u>	<u>\$18,713,447</u>	<u>\$ 283,807</u>	<u>\$ 41,190,615</u>
INTERNAL SERVICE FUNDS										
Budgeted					\$3,025,210	\$886,347	\$12,719,779			\$ 16,631,336
Actual					<u>2,933,318</u>	<u>857,591</u>	<u>12,673,493</u>			<u>16,464,402</u>
Unspent Budget Authority					<u>\$ 91,892</u>	<u>\$ 28,756</u>	<u>\$ 46,286</u>			<u>\$ 166,934</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 21 through 26.

DEPARTMENT OF HIGHWAYS
NOTES TO THE FINANCIAL SCHEDULES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1987

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Department of Highways operates under a director appointed by the Governor and consisted of the following programs during the audit period: General Operations, Construction, Maintenance, Preconstruction, Highway Service Revolving, State Motor Pool, Equipment, Capital Outlay and Stores Inventory.

The following is a summary of the significant accounting policies:

Basis of Presentation

The financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustments. Accounts are organized on the basis of funds according to state law which requires compliance with generally accepted accounting principles. The following fund types are used by the department:

Special Revenue Fund - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Legislative appropriation is required to spend from this fund. Department Special Revenue Funds include the Highway Revenue Bond Proceeds Account, the Reconstruction Trust Account, the Stores Inventory, the Bond Construction Accounts, the Highway Special Revenue Account, and the Highway Trust Account. The Highway Trust Account reflects receipts and expenditures of federal moneys designated for highway construction.

Debt Service Fund - accounts for the accumulation of resources for the payment of General Long-term Debt Principal and Interest. This fund accounted for payments relating to the department's series 1983 Revenue Bonds (\$64,000,000) and Bond Anticipation Notes (\$39,075,000) in fiscal year 1985-86. In fiscal year 1986-87 the department issued series 1987 revenue bonds (\$150,000,000, which was used to defease previous revenue bond and bond anticipation notes and generate additional construction money).

Internal Service Fund - accounts for operations that provide goods or services to other agencies or departments on a cost-reimbursement basis.

At the Department of Highways the Internal Service Fund includes the Motor Pool, Highway Service, and Equipment Bureau Revolving Accounts.

Expendable Trust Fund - accounts for assets held by the department in a trustee capacity where both the trust principal and earnings may be expended. The department accounts for the Woodville Highway Account in this fund. The account reflects the proceeds and interest earned on the sale of a section of highway to the Anaconda Company. The department is holding these moneys in trust with the intent that they be used to improve Butte-Silver Bow area roadways.

Basis of Accounting

The state of Montana utilizes the modified accrual basis of accounting which is described in the Montana Operations Manual.

Under the modified accrual basis of accounting expenditures are recorded for valid obligations. A valid obligation exists when the associated liability is incurred except for the following items which are also considered valid obligations under state accounting policy.

- If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.
- Equipment expenditures may be accrued in the fiscal year in which budgeted.
- Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.

Revenues are recorded when they are received in cash, unless susceptible to accrual. Revenues are susceptible to accrual if they are measurable and available to finance expenditures of the current fiscal period.

2. FIXED ASSETS

The department accounts for fixed assets in the Internal Service Fund and the General Fixed Asset Account Group. The changes occurring during the audit period in fixed assets are detailed in the schedule below.

	<u>June 30, 1985</u>	<u>June 30, 1987</u>	<u>Increase (Decrease)</u>
<u>INTERNAL SERVICE FUND</u>			
Land	\$ 234,649	\$ 236,064	\$ 1,415
Equipment	40,015,249	48,683,116	8,667,867
Accumulated Depreciation - Equipment	(17,551,442)	(19,879,104)	(2,327,662)
Construction Work in Progress	989,610	84,247	(905,363)
<u>GENERAL FIXED ASSET ACCOUNT GROUP</u>			
Land and Building*	26,198,736	29,468,442	3,269,706
Equipment	5,301,791	7,732,568	2,430,777
Construction Work in Progress	<u>814,917</u>	<u>339,715</u>	<u>(475,202)</u>
TOTAL FIXED ASSETS	<u>\$ 56,003,510</u>	<u>\$ 66,665,048</u>	<u>\$ 10,661,538</u>

*Land and Buildings on the Statewide Budgeting and Accounting System are separate totals. Land was understated and Buildings overstated by \$3,233,228 and \$3,398,781 in fiscal years 1985-86 and 1986-87, respectively.

3. BOND ACTIVITY

The department has issued bonds on several occasions since 1983. The bond issues fund the Highway Reconstruction Trust and the accelerated interstate projects. At July 1, 1985 the department had two bond issues outstanding:

<u>Issue Date</u>	<u>Type</u>	<u>Dollar Amount</u>
June 1983	Serial Bonds	\$64,000,000
September 1983	Bond Anticipation Notes	\$39,075,000

In July 1985 the department issued Bond Anticipation Notes in the amount of \$43,675,000. These notes were used to defease the September 1983 issue. The department issued an additional \$150,000,000 in bonds in April 1987. The April issue was used to defease the June 1983 issue and the July 1985 issue and generate additional operating cash.

Bond activity was primarily recorded in the debt service fund. The activity in the debt service fund was nonbudgeted activity.

DEPARTMENT OF HIGHWAYS
DEBT SERVICE FUND
NONBUDGETED REVENUE AND TRANSFERS IN BY CLASS

	<u>Investment Earnings</u>	<u>Bond Proceeds</u>	<u>Transfers In</u>	<u>Totals</u>
Fiscal Year 1985-86	\$659,387	\$43,675,000	\$53,464,973	\$97,799,360
Fiscal Year 1986-87	\$762,202	\$71,320,382	\$15,293,767	\$87,376,351

DEPARTMENT OF HIGHWAYS
DEBT SERVICE FUND
NONBUDGETED EXPENDITURES AND TRANSFERS OUT BY PROGRAM

	<u>Construction</u>	<u>Bonds</u>	<u>Capital Outlay</u>	<u>Totals</u>
Fiscal Year 1985-86	\$41,550,945	\$54,186,492	\$646,106	\$ 96,383,543
Fiscal Year 1986-87	\$45,854,401	\$69,845,410	\$534,484	\$116,234,295

4. MINERAL LEASING REVENUE

The June 1986 Special Session of the legislature removed federal mineral leasing payments to the state as a revenue source to the department. The mineral leasing money received by the department in fiscal year 1985-86 was \$7,577,783. This money was recorded in the special revenue fund in the "rent, leases, and royalties" revenue class.

5. INTRAFUND TRANSFERS

The department uses transfer activity to move cash to appropriate accounts to make payments to vendors, meet reserve requirements on debt or make payments on bonds. Some of these transfer transactions were between accounts within the same fund. These intrafund transactions were:

Fiscal Year 1985-86

Transfers within the Special Revenue Fund	\$13,336,603
Transfers within the Debt Service Fund	\$38,699,271

Fiscal Year 1986-87

Transfers within the Special Revenue Fund	\$25,530,000
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6. CASH TRANSFERS

The department receives gasoline and diesel fuel tax receipts as a source of funding. This money is collected by the Department of Revenue and recorded as revenue to the state at the time of collection. To avoid duplicate recording of the same revenue on the state's accounting records, the state's accounting system transfers the cash on the Department of Revenue's books that was collected for the Department of Highways to the Department of Highways. These cash transfers are shown on the Schedule of Changes in Fund Balance for the two years ended June 30, 1987 on page 16.

7. ADVANCED CONSTRUCTION INTERSTATE

Federal interstate funds are matched by state funds. The ACI (Advanced Construction Interstate) program is designed to allow the Department to accelerate the construction of interstate by committing future federal interstate funds for current construction activities. This enables the state to complete sections of interstate at one time, gaining the engineering and economic benefits of economy of scale and avoiding future inflation costs. The ACI program is tied to the issuance of bonds for immediate highway construction, with the bonds being repaid as additional federal funds are committed to interstate highway projects.

The department had expended \$27,924,652 of the bond funds dedicated to ACI as of June 30, 1986 and an additional \$8,181,715 was expended during fiscal year 1986-87 on ACI projects. The department estimates the rest of bond moneys (\$2,350,467) will be spent and all ACI expenditures reimbursed by April 1990. Of the \$36,106,367 of bond funds used, \$28,614,104 had been reimbursed by the federal government as of June 30, 1987.

8. COMMITMENTS

Construction commitments in the form of unperformed contracts for the construction of highways existed at the department at the end of fiscal years 1985-86 and 1986-87. The authorized, expended and unexpended amounts are presented in the table by district (expressed in thousands):

	<u>Project Authorization</u>	<u>Expended through June 30</u>	<u>Remaining Construction Authorization</u>
<u>Fiscal Year 1986-87</u>			
Billings District	\$ 6,170	\$ 5,719	\$ 451
Butte District	46,712	44,247	2,465
Missoula District	20,659	14,385	6,274
Great Falls District	6,304	6,011	293
Glendive District	29,098	26,207	2,891
*Miscellaneous Projects	<u>135,899</u>	<u>80,437</u>	<u>55,462</u>
Total Highways	<u>\$244,842</u>	<u>\$177,006</u>	<u>\$ 67,836</u>
<u>Fiscal Year 1985-86</u>			
Billings District	\$ 13,901	\$ 8,986	\$ 4,915
Butte District	66,986	49,212	17,774
Missoula District	14,329	4,464	9,865
Great Falls District	6,281	2,735	3,546
Glendive District	23,929	9,714	14,215
*Miscellaneous Projects	<u>135,179</u>	<u>77,534</u>	<u>57,645</u>
Total Highways	<u>\$260,605</u>	<u>\$152,645</u>	<u>\$107,960</u>

*Including projects that cover more than one district and are less than \$5 million per project.

AGENCY RESPONSE

DEPARTMENT OF HIGHWAYS



TELESCOPING GOVERNOR

27011604101

STATE OF MONTANA

HELENA, MONTANA 59620

April 26, 1988

RECEIVED

APR 27 1988

Scott A. Seacat
Legislative Auditor
Room 135
State Capitol
Helena, MT 59620

MONTANA LEGISLATIVE
AUDITOR

DEPARTMENT OF HIGHWAYS' FINANCIAL COMPLIANCE
AUDIT FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1987

I am transmitting our response to the audit report performed by your office for the two fiscal years ended June 30, 1987.

Thank you for your staff's effort and cooperation during the audit.

If you have questions concerning our response, please call me at 444-6201.


GARY J. WICKS
DIRECTOR OF HIGHWAYS

GJW:WGS:ts:le

RECOMMENDATION #1:

We recommend the department ensure complex and infrequent transactions receive adequate management review.

RESPONSE:

We concur. We will work more closely with the Department of Administration, Accounting Division, if these complex situations occur in the future.

RECOMMENDATION #2:

We recommend the department:

- A. Comply with the law and obligate only up to three times a county's previous year's apportionment for secondary roads.
- B. If necessary, seek legislation to allow the department more flexibility in apportioning secondary highway funds.

RESPONSE:

- A. We concur. These were two isolated instances involving small amounts. The necessity of getting secondary road projects to contract means that on occasion, overruns are unavoidable.
- B. The department will develop legislation to provide necessary flexibility as the auditors recommend.

RECOMMENDATION #3:

We recommend legislation be enacted amending Section 60-3-303(3), MCA, to provide a method to allow the department to consistently document if bikeway expenditure limits are met.

RESPONSE:

We concur.

RECOMMENDATION #4:

We recommend the department comply with established procedures to monitor appropriation requirements and ensure reversions meet legislative requirements.

RESPONSE:

We concur. We have developed strict controls to comply with this requirement. This situation occurred because a significant number of vendor bills for gasoline occur after the State of Montana fiscal year end, which requires us to estimate bills. At that time we had estimated that we met the reversion clause.

However, subsequent vendor bills caused us to exceed the reverted amount. The Equipment Program is funded from both proprietary funds and earmarked revenue funds. We could have changed the funding for equipment purchases made originally from proprietary funds to earmarked funds, thus creating enough appropriation authority to comply with the required reversion. The department could have also transferred either additional proprietary or earmarked revenue appropriation authority to the Equipment Program from other programs to meet the requirement. In any event, the department and the Governor's Office of Budget and Program Planning (OBPP) considered the amount not significant enough to process the program transfers for less than 1 percent of the total Equipment Program expenditures. This non-reversion did not affect the department's cash funds.

RECOMMENDATION #5:

We recommend the department ensure access privileges are canceled in a timely manner for terminated employees.

RESPONSE:

We concur.

RECOMMENDATION #6:

We recommend the department implement procedures to ensure:

- A. Field project managers review and approve project estimates.
- B. Equipment operators' supervisors review and approve equipment usage reports.

RESPONSE:

- A. We concur. The department will implement a new personal computer based progress estimate system statewide by the end of FY 89. At that time we will do an extensive rewrite of the progress estimate system to include approval codes. Until that time we implemented an alternate procedure in March 1988 which requires district office personnel to review the project managers' hardcopy project estimates for approval signatures. This procedure has been approved by the Federal Highway Administration.
- B. We concur. The Equipment Bureau issued a directive in February 1988 to require supervisors to sign all equipment rental forms.

WGS:ts:lf

